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TAGS: [FAIR ECON PGOV AR](#)  
SUBJECT: Argentina: GoA Extends Airport Concession Contract,  
Fundamental Problems Remain

Ref: (A) Buenos Aires 1629  
(B) Buenos Aires 1456  
(C) Buenos Aires 1070 and previous

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1. (SBU) SUMMARY: On December 7, outgoing President Nestor Kirchner, in one of his final moves before leaving office, approved a modification of the GOA concession contract with Aeropuertos Argentina 2000 (AA2000), the company that operates the 33 major airports in Argentina. The AA2000 concession has been extended through 2028 with a linked AA2000 commitment to invest \$2 billion in infrastructure improvements. In addition, AA2000's concession payments to the GOA have been changed from a fixed to a variable fee based on revenues. To address an overhang of almost \$400 million in accumulated AA2000 debt to the GOA, media reports that the agreement allows the GOA to swap this debt for an up-to-20% direct equity stake in AA2000 - another step in a trend towards more state ownership of productive assets. For U.S. carriers, this deal offers a few positive measures, including a reduction in some airport fees, but AA2000's fundamental problems - high costs, poor services, an unhealthily cozy relationship with the GOA, and ever-changing rules - remain unresolved. END SUMMARY.

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Background on AA2000  
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2. (SBU) In 1998, the GOA awarded Aeropuertos Argentina 2000 (AA2000) a 30-year concession to operate Argentina's major 33 airports, including the two airports servicing Buenos Aires, Ezeiza International and Aeroparque. AA2000 is also the owner of Argentina's airport duty-free operator, Interbaires. AA2000 was originally a consortium owned by Milan airport operator SEA (30%),

U.S. ground-handling company Ogden (28%), and Corporacion America Sudamericana (32%), controlled by Argentine entrepreneur Eduardo Eurnekian. By 2000, Eurnekian retained full control of the AA2000 entity. Through his Americas Corporation holding company, Eurnekian also operates the major airports in Montevideo, Uruguay; Guayaquil, Ecuador; and Yerevan, Armenia (where Eurnekian has ancestral ties and extensive business contacts).

13. (SBU) The 1998 AA2000 concession contract called for an annual payment (called a "canon") to the GOA of 171 million pesos (then equal to \$171 million, today roughly \$55 million), general infrastructure investments of \$562 million in the first four years, and \$2.2 billion in total investments by 2015. According to U.S. carrier representatives here, it was always understood that AA2000's smaller, loss-making regional airports would be subsidized by substantial fees generated from Ezeiza and Aeroparque, which together account for roughly 70% of total Argentine air traffic. AA2000 never came close to honoring these terms, having only paid the full canon the first year, and largely failed to fulfill the investment objectives. As a result, AA2000 has accumulated a debt to the GOA of roughly \$1.2 billion pesos (about \$387 million).

14. (SBU) AA2000's performance remains highly controversial. Its management claims that the GOA has often changed contract rules and, after the fact, added new airports to its modernization mandate. AA2000 also argues that it has had to deal with the extraordinary impact on domestic air traffic of Argentina's 2001-02 economic collapse, the extended impact of 9/11 on international airline traffic, and slower-than-anticipated growth in passenger volumes. AA2000's detractors, including all international and domestic carriers operating here, contend that AA2000 won its concession bid by offering the GOA an unsustainably high annual payment with the

intent, once it was comfortably in place, to renegotiate its contact. They charge that AA2000's fees for landing, storage, and other services are among the highest in the world, while its services are of relatively low quality. They also complain of arbitrary fees, changing rules, unrealized investment plans, lax GoA regulatory oversight of AA2000 management, and overly cozy relations with the Kirchner administration. (Eurnekian frequently lends out his private plane to the Kirchners when official GOA planes are unavailable.)

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#### New Contract Extends Concession to 2028

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15. (SBU) On December 7, outgoing President Nestor Kirchner approved a modification and extension through 2028 of the GOA concession contract with AA 2000. This new contract is the result of over a year of negotiations between the GOA and AA2000, with limited input from carriers and the International Air Transportation Association (IATA), the organization that represents over 270 carriers around the world. (IATA has publicly and harshly criticized AA2000's performance, and charged that Ezeiza airport's infrastructure and operations as among the worst in the region, and even publicly called for the complete cancellation of the contract. IATA has also expressed its concerns to the U.S. Department of Transportation.)

16. (SBU) According to GoA Decree 1799/2007, starting in 2008, the GOA will reduce AA2000's canon from the fixed annual fee of Pesos 171 million (roughly \$55 million) to 15% of gross revenue. (At present rates of operation, this translates to about \$29 million, a reduction of about half.) AA2000 will also maintain its original concession commitment to make \$2 billion in infrastructure investments over the duration of the concession period. Media and Embassy contacts also report that, in order to deal with the estimated \$387 million in accumulated AA2000 debt to the GOA, the new contract envisions the GoA swapping all or a portion of this debt for up to a 20% equity stake in AA2000. (Assuming a debt-equity swap of a 20% stake for \$387 million in debt, this would value AA2000 equity at roughly \$1.9 billion, a figure that some local analysts call extremely overvalued.) In addition, up to 30% of AA2000 is to be offered on the Buenos Aires stock exchange.

17. (SBU) In response to complaints from international carriers of excessively high airport operating fees, the contract also calls for airlines to receive a minimum 25% discount on landing and parking

fees for the first concession renewal year - with the caveat that AA2000 is permitted to recoup resulting lost revenue, perhaps via increased passenger departure fees. If airlines surpass a certain annual passenger forecast, airlines will also receive an additional 2% discount for every percentage the forecast is surpassed (up to a maximum 12%). AA2000 will also reduce airline fees 15% the first year for those airlines increasing the frequency of their flights.

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The fine print  
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¶8. (SBU) According to local aviation contacts, despite some positive aspects from the point of view of foreign carriers, the most serious concerns about AA2000 management - high costs, poor services, less-than-independent regulatory oversight of AA2000, and ever-changing rules - remain unchanged and unresolved. The carriers' other big concern is that the new contract does not explicitly provide guarantees against other charges being arbitrarily added at any time, which they contend AA2000's close relationship with the GOA allows. These potentially new charges

could include facilities rent, fuel charges, fees for other services, and in the case of American Airlines, royalties charged to ground handling companies that do not use the state-owned ground-handling company Intercargo. According to these contacts, it is entirely possible that AA2000 could increase such fees in order to pay for the discounts offered in other areas, actions that they have done in the past.

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Comment  
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¶9. (SBU) With the concession renewals change in AA2000's annual payment to the GOA from a fixed to an initially smaller percentage of revenues, some skeptics will surely conclude that AA2000 has escaped serious repercussions from its non-compliant history of payments to the GOA. As for the announced fee reductions for the airlines, including the six U.S. carriers operating here, only time will tell if this deal will benefit them, given AA2000's ability to add new fees without adequate carrier recourse. Nevertheless, AA2000's underlying problems - poor service, high costs, an inappropriately cozy relationship with the GOA, and changing rules - remain. And AA2000's lackluster performance constitutes only a part of even greater problems plaguing Argentina's aviation sector (reftels A and C), including frequent delays, tariff freezes that deter needed investments by carriers serving the domestic market, a theft-prone state-owned ground handling company (Intercargo), and a bloated, inefficient flag carrier (Aerolineas Argentinas) that dominates domestic air traffic. These problems must be addressed if Argentina hopes to leverage its aviation sector to encourage new tourism, trade, and investment activity.

¶10. (SBU) No less significant are media reports of the GOA's decision to exchange all or a part of this accumulated AA2000 debt in exchange for an up-to-20% stake in AA2000. With this significant GOA stake, the GOA has signaled that it seeks to increase the state's role in strategic economic sectors. In recent years, the GOA has increased the state role in a number of sectors, by either creating new state firms (Enarsa, oil and gas; Lafsa, airline); re-nationalizing companies that provide key public services (Correo Argentino, postal service; Aguas Argentinas, water company; Thales Spectrum, radio airways regulator; and Metropolitan, Buenos Aires train service); or increasing equity stakes in private firms such as Aerolineas Argentinas. These actions speak to the GoA's belief that it has the capacity -- and public mandate -- to play a greater direct role in Argentina's economy.

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